

# ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

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### *E-Mail Your Questions*

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry with the exception of specific account inquiries. All inquiries will be responded to within two working days.

E-mail your question to:  
[TaxpayerAssistance@revenue.state.az.us](mailto:TaxpayerAssistance@revenue.state.az.us)

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

## More On Re-engineering

As discussed in the last issue of the TaxNews, the Department is embarking on a project to re-engineer its key operating systems. The project entitled Business Re-engineering for Improved Taxation (BRITS) seeks a business partner to work with the department to modernize its technology and update its systems. Key to the partnering aspect of the project is the idea that the vendor/partner would be paid from a share of increased revenues realized by the project.

Some people have questioned if this method of funding is simply another PIER project. The PIER projects involved adding auditor and collector staff to expand these programs to collect more revenues. The PIER projects did not focus on making the existing collector or auditor staff more efficient, they simply operated on the premise that by increasing staff size the department could perform more audits and collect on them. PIER had no feature to improve service, efficiency, or operations. It just provided more of the same service.

BRITS on the other hand, focuses on improving the department's efficiency, effectiveness, and service delivery. The byproduct of this will be increased revenue

collections. The vendor/business partner will finance all our new technology systems and will be paid out of the increased revenues that result from the project. In states such as Kansas and Virginia that have used this approach to fund reengineering, the results have been excellent. In several states, improved systems and processes have resulted in increased efficiency of collectors. This has allowed these states to collect money owed faster, and to collect a larger percentage of the receivables created. The department collections exceed \$200 million per year. It is easy to see that a small increase in efficiency by the collector staff, even as small as 5 %, can result in a significant increase in revenues. A 5 % increase in collector efficiency could net \$10 million per year. In other states, another feature of data base systems was used to allow discovery units to find more unlicensed or unregistered businesses with the same staff. These systems use the power of data warehousing technology to automate a manual process of discovery that matches masses of files. This increased efficiency results in bringing more businesses into compliance sooner and increasing the revenue stream.

The most important difference when you compare BRITS to PIER is the fact that BRITS will focus on improving service delivery. When completed, our goal will

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# \*\*\***REMINDER**\*\*\*

## FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your April 2001 TPT return no later than May 25, 2001 or deliver to DOR no later than May 30, 2001.**

## December Summary of General Fund Revenues

	December 2000	Fiscal Year Total
<b>Individual Income Tax</b>		
Net Collections	\$233,469,619	\$1,058,217,446
Percent Change *	(0.9%)	8.0%
<b>Corporate Income Tax</b>		
Net Collections	\$137,021,365	\$308,553,182
Percent Change *	52.0%	27.8%
<b>Transaction Privilege, Severance &amp; Use Taxes</b>		
Net Collections	\$238,713,726	\$1,465,053,590
Percent Change *	2.3%	7.4%
<b>Total Big Three Tax Types</b>		
Net Collections	\$609,204,710	\$2,831,824,218
Percent Change *	8.9%	9.5%

( ) Decrease from same month last year.

\* Percent change from same month last year.

## Individual Income Tax

### Individual Income Tax Receipts

	December 00	December 99	Change
Gross Collections	\$59,107,677	\$60,381,300	(2.1)
Withholding	210,605,193	211,273,452	(0.3)
Refunds	(3,205,531)	(4,570,482)	(29.9)
Urban Rev Sharing	(33,037,720)	(31,475,916)	5.0%
<b>Net Collections</b>	<b>\$146,306,739</b>	<b>\$139,867,710</b>	<b>4.6%</b>
<b>Fiscal Year Total</b>	<b>(00/01)</b>	<b>(99/00) %</b>	<b>Change</b>
Gross Collections	\$133,145,563	\$120,926,320	10.1%
Withholding	1,151,910,631	1,076,191,389	7.0
Refunds	(87,720,105)	(88,500,951)	(0.9)
Urban Rev Sharing	(198,226,320)	(188,855,495)	5.0
<b>Net Collections</b>	<b>\$1,058,217,446</b>	<b>\$980,142,563</b>	<b>8.0</b>

### Just a reminder...

renew your subscription to the Arizona TaxNews at least 30 days before expiration to avoid missing issues.

## Tax Calendar

May 2001

Due Date		For Period Ending
15	Income Tax Returns:	1/31/01
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	7/31/00
15	Form 120S: S Corporation	2/28/01
15	Form 99: Exempt Organization Annual Information Return	
	Form 99T: Exempt Organization	12/31/01
17	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	1/31/02
	Second Installment	11/30/01
	Third Installment	8/31/01
	Fourth Installment	5/31/01
21	Form TPT-1: Transaction Privilege Tax:	
	April Monthly Filers	4/30/01
21	Bingo: Financial Reports	4/30/01
21	Luxury Tax: Various Forms	4/30/01
25	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	April Monthly Filers,	4/30/01
28	State Holiday - Memorial Day All State Offices Closed	

### Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from Tony Manzo at (602) 542-3062 or toll free 1 (877) 863-0655.

# Revised Uniform Unclaimed Property Act

On April 7, 2000, Governor Jane Dee Hull signed HB2037 into law effective January 1, 2001 to replace the Arizona Unclaimed Property Act of 1984. This document will attempt to summarize the impact to the holders of unclaimed property.

## HOLDER IMPACT

**There are six property types in which the holding period has been changed. Please note that holders will be required to *report property in accordance with the new holding periods.* This will necessitate a review of your current reporting practices to ensure compliance with these changes.**

Property Type	Current Holding Period	Previous Holding Period
Stock or Equity Interest	3 years	5 years
Business Dissolution Property	1 year	2 years
Class action Court Property	1 year	5 years
All other Court & Government Property	1 year	5 years
Wages	1 year	5 years
Individual Retirement Accounts	3 years	5 years

### **Other points of interest for the holder include:**

- A general clause was added that allows any holder, except an agency of the State, to deduct service charges in a method similar to what was only extended to financial organizations.
- A provision was added making the issuance of a check and the passing of the requisite period of time sufficient for the

State to meet its burden of proof that the obligation exists. It also states what burden the holder has in defending the obligation.

- The aggregate reporting threshold has been raised to \$50.
- A holder can make a one-time election to report its unclaimed property at the same time it files its income tax.
- The language regarding the holder's due diligence effort has changed from "not more than 120 days", to "prior to 120 days".
- The statute of limitations timeframe has changed for holders. What was formerly 5 years for the State to take legal action for all entities except governments (which had no limiting statute), is now 4 years as a general rule across the board, 6 years for substantial under-reporting (25% or more of the reported amount), and no statute of limitations for non-filers or fraudulent filers.
- There are some new things concerning report requests and examinations. It expressly gives authorization to audit a holder's agent, classifies working papers as confidential and not public records, and clarifies what methods and under what circumstances estimation can be used.
- The section of the new law concerning record retention has been changed from an entity maintaining records for 5 years after the property became reportable to 5 years after the report was actually filed, three years in the case of traveler's checks and money orders.
- There are some new restrictions regarding agreements to locate property. It is spelled out that the agreement between a locator and an

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owner must include an indication of the nature of the property and the services to be performed, must be signed by the owner, and must state the value of the property before and after the fee has been deducted. There is a provision that provides relief to the owner in cases where a finder's fee is in excess of the statutory maximum.

- There is now an Unclaimed Property Problem Resolution Officer. The employee's name is John Sylvester. John can be reached at 602-542-3887 x 4125. John's e-mail address is SylvesterJ@revenue.state.az.us.
- There are new sections that allow for abatement of interest and penalties for erroneous written advice or misleading statements made by Department personnel and one that mandates that employees will not be evaluated on the basis of the amount of property they demand from holders. The Unclaimed Property Audit Unit employees have never been evaluated on that basis.
- Once a final audit has been issued no additional audit for the period may be conducted on the types of property indicated in the final audit, except in the case of material misrepresentation.
- A holder of unclaimed property can now request a private holder ruling from the Department's Tax Research and Analysis Unit regarding a particular circumstance so

long as it is not related to an ongoing audit. You may contact the Tax Research and Analysis section for private holder ruling information at 602-542-4672

- There is a new section that allows for the abatement of interest for errors or delays caused by the Department.
- Finally, there is a new provision that makes unclaimed property auditing an appealable agency action which means that demands issued to a holder by the department are subject to the same appeals process that transaction privilege tax assessments are subject to. Prior to the passing of this section of the law, the Department is proud of its record of having gone through a formal judicial process only one time. This history shows the Unclaimed Property Program's willingness to work through issues with holders.

The goal of the Unclaimed Property Program is to reunite rightful owners of unclaimed property with their property. The program is here to partner with holders to return this property in the most efficient manner.

If holders or their agents should have any questions regarding the new statutes, please call Dan Corcoran or David Crain at: 602-542-3345.

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be to have no "wrong door" for a taxpayer to access. Integral to the new systems and technology will be expanded E-commerce applications such as on line licensing, automated E-mail, and on line reporting. Improved technology will result in much faster processing of returns and payments, and of course, faster refund times. One cornerstone of the requirement package is a customer relations module that will insure more accurate and faster responses to

inquiries. All of these features will result in improved voluntary compliance, that in turn will also improve our revenue stream. None of these features were in the PIER programs. Their one and only focus was on increased revenues.

As you can see, BRITS will move the DOR's technology and systems into the 21<sup>st</sup> century, and its biggest impact will be on improved service and efficiency.

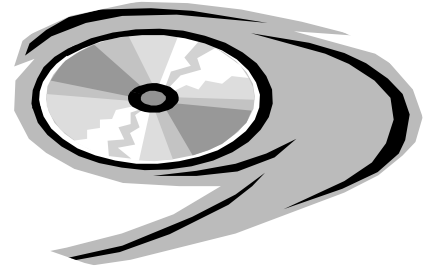
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# State of Arizona

## Department of Revenue

### Forms and Tax Information

### CD-ROM 2000 Edition



#### Includes:

- Arizona tax forms and instructions from 1995 – 2000
- Department of Revenue Tax Rulings
- Department of Revenue Tax Procedures
- Department of Revenue Private Taxpayer Rulings
- Arizona Department of Revenue Annual Report 2000
- Arizona E-File Manual

#### Also Includes:

- Internal Revenue Service Forms & Instructions for 2000

To order call or write:  
License and Registration  
PO Box 29069  
Phoenix, Arizona 85038-9069  
Phone: 602-542-1981  
Toll free: 1-800-493-8080  
Cost: \$15.00

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## Private School Tax Credit

In 1997, the Arizona legislature enacted a law that allows a dollar-for-dollar state income tax credit of up to \$500 for those who donate to school tuition organizations (STOs) during tax years beginning from and after December 31, 1997. See A.R.S. § 43-1089. This credit is commonly known as the private school income tax credit because the STOs must direct 90 percent of its revenues for educational scholarships or tuition grants to children in order to allow them to attend non-governmental primary or secondary schools of their parents' choice. There have been two lawsuits contending the credit was invalid. In one

case, the Arizona Supreme Court upheld the constitutionality of the credit. See *Kotterman v. Killian*, 193 Ariz. 273, 972 P.2d 606 (1999) <<http://www.supreme.state.az.us/opin/pdf99/cv970412.pdf>>, cert. denied *Rhodes v. Killian*, 145 L.Ed.2d 237, 67 USLW 3671 (1999). The other case was filed in the United States District Court for the District of Arizona. *Winn et. al. v. Killian*, Docket No. CIV00-0287PHXEHC (D. Ariz.). On February 27, 2001, the District Court Judge dismissed the case for lack of jurisdiction over the subject matter of the case.

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## City Tax Code Changes

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### Cottonwood Change in City Tax Code Effective May 1, 2001

The Mayor and Council of the City of Cottonwood have passed Ordinance Numbers 394 and 398. Ordinance No. 394 transfers the collection of the Additional Tax On Transient Lodging from the City of Cottonwood to the Department of Revenue.

The Additional Tax On Transient Lodging is 2% reported using CODE CW3. This is in addition to the standard Transaction Privilege tax on the Hotel Classification of 2.2% reported using CODE CW. The Transient Lodging combined

tax rate is a total of 4.2%.

Ordinance No. 394 also transfers the collection of the City of Cottonwood Utility Tax from the City to the Department of Revenue. The Privilege Tax on Utilities is 1% reported using CODE CW1.

Ordinance No. 398 establishes an effective date of May 1, 2001 for the transference of collection from the City of Cottonwood to the Department of Revenue.

### Surprise Change in City Tax Code Effective July 1, 2001

The Mayor and City Council of the City of Surprise passed Ordinance No. 01-01. Ordinance No. 01-01 affects the City Privilege Tax Code as follows:

The privilege tax rate for additional tax on transient lodging is increased from 1% to 3% reported using CODE SP1. This is in addition to the 2% Transaction Privilege Tax rate on hotels reported using CODE SP, for a total rate of 5%.

The privilege tax rate for restaurants and bars is increased from 3% to 5% reported using

CODE SP3.

The privilege tax rate for retail sales remains at 2%. However, the city of Surprise has a two-tiered tax rate for a single item at of cost of \$5,000.00 or more. The first \$5,000.00 would be taxed at the regular retail rate of 2% reported using CODE SP, and the portion of the sale over \$5,000.00 would be taxed at 1% using CODE SP4.

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### IRS Interests Rates Over/Under Payments

The Internal Revenue Service has announced that interests rates for the calendar quarter beginning April 1, 2001 will be dropped by 1% for both underpayments and overpayments. Therefore, our interest rate will become 8% for underpayments and will also become 8% for overpayments.

Under the Tax Reform Act of 1986, the rate of interest is determined on a quarterly basis. The overpayment/underpayment rates are now the same as we have conformed to the 1999 I.R.C., passed during the 1999 Legislative Session.